

Improved core earnings driven by strategic initiatives in challenging times

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Company announcement no. 12/2020

"I'm pleased to note that the measures we implemented in December 2019 to strike a better balance between the Group's costs and earnings have produced results in the first half of 2020. Our operating costs were down by 10%, fee and commission income was up by 6% on the first half of 2019, and both our cost performance and core earnings have developed better than we anticipated when announcing the measures. In June, we raised our profit guidance due to lower impairment charges and insurance claims and an improvement in core earnings relative to expectations at the end of April," said BankNordik CEO Árni Ellefsen.

To date, COVID-19 has had only a limited impact on the Group's financial results, and thanks to the strong credit quality of our loan portfolio, we made a DKK 30 million reversal of loan impairment charges in the second quarter, enabling us to raise our profit guidance once more. Given the considerable uncertainty still prevailing in terms of the long-term economic impact of the current healthcare crisis, we have made a further DKK 10 million provision to cover potential losses arising in the wake of the crisis, bringing the total amount to DKK 35 million. Customer activity remains high, and based on the initiatives implemented and our solvency ratio of 24%, BankNordik stands well prepared to withstand challenges that may arise in markets in which the bank operates," said Árni Ellefsen.

Highlights of BankNordik's interim report for the first six months of 2020:

H1 2020 vs. H1 2019

- BankNordik reported operating profit before impairment charges of DKK 93m in the first six months of 2020, a DKK 26 million improvement on H1 2019.
 - Net interest income was up by DKK 10m (+6%), driven by the introduction of negative interest rates.
 - Fee and commission income was up by DKK 6m (+6%) in H1 2020 due to the measures implemented in December 2019.
 - Net insurance income fell by DKK 9m in H1 2020 as a result of higher travel cancellation claims due to COVID-19 and insurance claims related to stormy weather.
- Operating costs fell by DKK 25m to DKK 215 million due to lower staff costs and low marketing activity in H1 2020 relative to last year.
- Net impairment charges amounted to DKK 2m, compared to a DKK 72m net reversal in H1 2019. The net impairment charges in H1 2020 include a discretionary impairment charge of DKK 35m, which was not included in the net impairment charges in H1 2019.
- Profit before tax was DKK 74 million in H1 2020, against DKK 151 million in H1 2019.
 - Zero non-recurring items were recognised in H1 2020, which was also the case in H1 2019.
 - The return on the investment portfolio was negative at DKK 17m compared to a DKK 12m gain in H1 2019.
- Net profit was DKK 58m in H1 2020, against DKK 118m in H1 2019.
- Bank lending volumes fell by DKK 173m (2%) from DKK 10.1 billion at 30 June 2019 to DKK 9.9 billion at 30 June 2020.
- Mortgage lending volumes were up by DKK 464m (+4%) from DKK 12.6 million at 30 June 2019 to DKK 13.1 million at 30 June 2020.
- Deposits fell by DKK 1.1bn from DKK 14.2bn at 30 June 2019 to DKK 13.1bn at 30 June 2020.

Q2 2020 vs Q1 2020

- Operating profit before impairment charges was up by DKK 3m to DKK 48m in Q2 2020 from DKK 45 million in Q1 2020.
 - Net interest income was DKK 2 million higher in Q2 2020 than in Q1 2020.
 - Fee and commission income amounted to DKK 45m in Q2 2020, which was DKK 9m less than Q1 2020.
 - Net insurance income amounted to DKK 12m in Q2 for a DKK 8m increase quarter on quarter thanks to fewer claims and higher premium income.
 - Other operating income was down by DKK 1m from DKK 9m in Q1 2020 to DKK 8m in Q2 2020.

- Operating costs fell by DKK 3m quarter on quarter.
- Net impairment charges were a DKK 22m reversal in Q2 2020, compared to a DKK 24m charge in Q1 2020.
- BankNordik recorded profit before tax of DKK 103m in Q2 2020 compared to a loss of DKK 30m in Q1 2020.
 - Zero non-recurring items were recognised in both Q2 2020 and Q1 2020.
 - A DKK 34m return on the investment portfolio was recognised for the second quarter, while a negative return of DKK 51m was recorded for the first quarter.
- BankNordik recorded net profit of DKK 82m in Q2 2020 compared to a loss of DKK -24m in Q1 2020.

Capital ratios

At 30 June 2020, the Group's CET1 capital ratio was 21.8% and the solvency ratio was 24%. Net income for H1 2020 is not reflected in the capital and solvency statement.

In reference to the uncertainty caused by the coronavirus crisis, BankNordik announced on 24 March 2020 that the Board of Directors did not consider it responsible or appropriate to pay out dividends for the 2019 financial year under the prevailing circumstances. While the Bank's management and its Board of Directors believe at the present time that current economic developments do provide a basis for distributing dividends to the shareholders, BankNordik has duly noted the request by the authorities to exercise restraint in this context. Provided there are no significant changes to current economic developments, the Bank intends to reconsider, not later than at the release of the annual report for 2020, whether to pay dividends in respect of the 2019 financial year.

Outlook

Management had originally guided for FY 2020 net profit in the DKK 100-150m range, but due to the COVID-19 pandemic and the uncertainty it had caused, the Bank lowered its guidance by DKK 80m in late April 2020. Since that time, BankNordik has upgraded its guidance twice on account of economic developments. The most recent upgrade, announced on 16 July and currently still in force, was for FY 2020 net profit in the DKK 80-120m range.

The revision of the financial guidance was driven in particular by the reversal of impairment charges even with the Bank making a further DKK 10m provision to cover potential COVID-19 related losses. The costs of travel cancellation insurance claims have been lower than expected, and core earnings have improved. In addition, BankNordik now expects that COVID-19 will not have as severe an impact on its investment portfolio as originally anticipated.

This guidance is generally subject to uncertainty and will, amongst other things, depend on developments in the COVID-19 situation, economic conditions, loan impairments and market value adjustments.

For additional information, please contact:

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BankNordik has banking activities in Denmark, Greenland and the Faroe Islands and insurance activities in the Faroe Islands. Founded in the Faroe Islands more than a century ago, the Group has total assets of DKK 16.9bn and about 360 employees. The Bank is subject to the supervision of the Danish Financial Supervisory Authority and is listed on Nasdaq Copenhagen.

Appendix: Financial highlights and comparative figures are provided below.

Financial highlights

Highlights and ratios								
	H1 2020	H1 2019	Index 20/19	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
DKKm								
Net interest income	177	167	106	90	88	87	83	83
Net fee and commission income	99	93	106	45	54	49	47	45
Net insurance income	15	24	64	12	4	14	15	15
Other operating income (less reclassification)	17	22	74	8	9	14	13	11

Operating income	308	306	<i>101</i>	154	154	164	158	155
Operating costs	-215	-240	90	-106	-109	-117	-116	-119
Sector costs	-1	0		0	0	0	0	0
Profit before impairment charges	93	67	<i>140</i>	48	45	47	42	35
Impairment charges, net	-2	72	-3	22	-24	25	9	53
Operating profit	91	138	<i>66</i>	69	22	71	51	88
Non-recurring items	0	0		0	0	-13	0	0
Profit before investment portfolio earnings and tax	91	138	<i>66</i>	69	22	58	50	88
Investment portfolio earnings	-17	12	<i>-140</i>	34	-51	1	0	-2
Profit before tax	74	151	<i>49</i>	103	-30	59	50	86
Loans and advances	9.880	10.053	98	9.880	9.971	9.909	9.983	10.053
Deposits and other debt	13.059	14.156	92	13.059	12.903	14.399	13.557	14.156
Mortgage credit	13.107	12.644	<i>104</i>	13.107	13.010	12.960	12.918	12.644
Equity	2.167	2.031	<i>107</i>	2.167	2.087	2.112	2.064	2.031
Total capital ratio %	24,0	19,6		24,0	23,4	22,3	21,0	19,6
Liquidity, excess cover %	185,9	238,3		185,9	159,4	215,7	225,1	238,3
Operating cost/income, %	70	78		69	70	71	73	77
Number of FTE, end of period	363	390	93	363	359	377	383	390

Further details are available in the interim report.

The company's interim report is prepared and presented in English.

This announcement is also available in Danish. In the event of any discrepancies, the Danish-language version shall prevail.

Attachments

- [Interim Report H1 2020.pdf](#)
- [IR_presentation_Q2 2020.pdf](#)